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UNION PROPOSAL
Bargaining Units: 1
May 17, 2007

Sideletter ____ - Investment Officer III (IO III) Incentive Award Program (Program)

- A. SEIU Local 1000 is not proposing any modifications to the ~~CalPERS~~ ^{PERS} Proposal for the IO III Incentive Award Program ^{discuss after with}
- B. SEIU Local 1000 and the State agree to meet and ~~confer~~ ^{discuss after with} within 18 months from implementation of the Program. At this meeting both parties will evaluate the effectiveness of the Program as well as improvement efforts needed to enhance the continuation of the Program. Prior to meeting the State will provide; award amounts and performance factors per IO III, plus ~~an updated~~ Incentive Award trends for all impacted classes.

table chg.

C. subject to legislative approval.

D. this agreement does not preclude the Union from proposing further enhancements to the Incentive Award Program for IO IIIs in future contract negotiations

*TA'd 5/17/07
SEIU Local 1000
Invest. Officer III CalPERS
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*Investment Officer
CalPERS
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*Deborah Jure
05/17/07
TA'd
4:35pm*

05/17/07
2:10pm

UNION PROPOSAL
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*TA'd
3:55
Margaret
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Investment Officer
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CalSTRS*

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Rebecca June
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Proposal**Investment Officer III, Incentive Award Program****Overview**

Introduction The California Public Employees' Retirement System (CalPERS) seeks to recognize the important contributions of the Investment Officer III staff. This publication explains the Investment Officer III, Incentive Award Program, proposed in recognition of the Investment Officer III staff.

Contents This publication contains the following topics:

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Award Characteristics <ul style="list-style-type: none">• Determining Award Amount• Performance Factors• Eligibility• Approval	2-5
Award Cycle	6
Performance Objectives and Plan <ul style="list-style-type: none">• Nature, Development and Approval• Final Review and Rating	7-9
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Proposal

Proposal - IO III, Incentive Award Program

Purpose and Rationale

The purpose of this award program is to recognize the important contributions made by staff in the Investment Officer III (IO III) class to the successful management of the CalPERS investment office. The skill, effort, and expert judgment of staff at this level play a key role in reaching and exceeding investment management objectives. Therefore, it is appropriate that these employees be eligible for an award, in addition to base pay, that recognizes success in their particular area.

This is not only equitable, but is also necessary to keep CalPERS compensation as competitive as possible with that offered in the for-profit sector. This will help CalPERS retain the experienced and productive IO III staff it needs to foster continued investment success and provide a viable internal candidate pool for higher investment management positions.

Nature and Range of Awards

- This is an annual, lump-sum award, ranging from 0-15% of the employee's base salary at the time of the award.
 - The award is tied to the fiscal year performance period (July 1-June 30) and is based on both quantitative and qualitative criteria.
 - Award amounts may vary from year to year, and from employee to employee, based on the award calculation procedure described in this proposal.
 - Unlike merit salary adjustments, the awards do not become part of the employee's base pay, and are not part of the calculation of final compensation for retirement.
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Award Characteristics

Determining Award Amount

The process for calculating IO III performance awards is related to the process for calculating performance awards for the CalPERS investment management positions (e.g., Portfolio Manager, etc.).

- The target award for employees in the IO III class is ten (10) percent of the employee's annual base pay at the time of the award.
- The specific award amount is calculated by multiplying this target amount (10%) by a performance factor, ranging from 0.0 to 1.5.

Performance Factors

The performance factor is determined as follows:

- Seventy percent (70%) of the factor is based on the factor product total (multiplier) used to compute the annual performance award for the investment manager to whom the IO III reports.
 - If the IO III reported to more than one investment manager during the period covered by the award, a prorated factor amount will be calculated based on the amount of time the IO III worked under each manager.
 - If the IO III's manager was not eligible for an award for the period (e.g., a recently hired investment manager) this part of the factor will be determined based on the factor product total for the immediately higher investment manager in the IO III's reporting chain.
- Thirty percent (30%) of the factor will be based on the IO III's accomplishment of specific work objectives (refer to the Performance Objectives Section in this guide).

Continued on next page

Proposal

Award Characteristics Characteristics, Continued

Example: Determining Award Amount

The example uses the following assumptions:

IO III	<ul style="list-style-type: none">• Annual base salary of \$97,584.• Reports to a investment manager who had a factor product total of 1.45 for the award period.• Had two performance objectives, each weighted 15%.• Met standards in accomplishing the first objective and exceeded standards in accomplishing the second one.
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Based on the assumptions, the IO III's performance award would be computed as follows:

PM product factor total 1.45 x 70% equals	1.02
Objective #1 multiplier 1.0 x 15% equals	0.15
Objective #2 multiplier 1.25 x 15% equals	0.18
IO III factor product total equals	1.35
<ul style="list-style-type: none">• Award percent is 10% x 1.35, which is 13.5%• Award is 13.5% of IO III base salary (\$97,584), which is \$13,174	

Note: base salary (\$97,584) is the mid-range of the Proposed IO III salary range (pending legislative approval).

Award Eligibility

To be eligible for a performance award under this program, the IO III must:

- Have been appointed to the IO III class for at least six months during the fiscal year in question, and have been performing the duties of an IO III position during that time; and
- Have received at least a satisfactory rating on his/her most recent performance appraisal or probationary performance report.

If a formal disciplinary action is pending against an IO III who is otherwise eligible for an award, any award shall be granted only if the disciplinary action is withdrawn or resolved in the employee's favor upon appeal.

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Proposal

Award Characteristics Characteristics, Continued

**Pro-Rata
Performance
Awards**

Employees who do not meet the six-month IO III appointment/duty performance requirement during a fiscal year shall not be considered for a performance award under this program until the conclusion of the following fiscal year.

- If the employee is eligible at that time, the award amount will be pro-rated to reflect the entire period of qualifying performance in the IO III position.
- If an employee separates from an IO III position prior to the end of the fiscal year, but otherwise meets award eligibility requirements, the employee shall receive a partial award, based on his/her amount of qualifying service during the fiscal year.

**Award
Approval**

All awards under this program require the approval of the Chief Investment Officer (CIO). The CIO shall approve awards when he/she determines that they are in full compliance with these award policies and procedures.

Proposal

Award Cycle

Award Cycle Awards will be made annually, recognizing performance in the immediately preceding fiscal year. The timing of this process will be coordinated with that the Investment Manager award program, as follows:

Activity	Timeline
Development of performance objectives for each IO III.	April/May
Annual performance award period begins.	July 1
Performance objectives for IO IIIs are approved immediately after Board of Administration approval of performance objectives for investment management positions.	August
Status reports on progress toward completion of objectives are prepared and reviewed after the end of the first, second, and third fiscal year quarters.	October, January/February, April
Annual performance award period ends.	June 30
Year-end reports and performance ratings are prepared on each objective, approved by the Chief Investment Officer, and sent to Human Resources (HR).	July
HR calculates IO III award amounts and submits to Chief Investment Officer for approval.	July/August
After Board of Administration action on investment manager awards, HR completes transactions for issuance of award checks, making any changes required by changes in investment manager awards.	August/ September

Performance Objectives and Plan

**Performance
Objectives:
Nature,
Development,
and Approval**

As indicated, thirty percent (30%) of IO III award amounts are based on the employee's level of achievement for specified key objectives.

- The objectives should be measurable, either in terms of numeric measures or accomplishment of specific outcomes.
- Objectives should be within the influence or significant control of the IO III, and should be targeted, meaning that a monetary value is placed on the desired level of achievement.
- Achievement above or below the desired level is recognized by a greater or lesser monetary award.

Prior to the beginning of the fiscal year (April/May), each IO III consults with his/her immediate supervisor to develop proposed objectives for the coming year. The objectives resulting from that discussion are then submitted to the next appropriate level investment manager for final review and approval.

The objective development process should be as collaborative as possible, with strong and meaningful participation by the IO III and their supervisor. However, the final authority for determining objective content and weighting rests with CalPERS management.

**Number of
Objectives**

The number of objectives will vary from employee to employee and from year to year, depending on program needs. Each objective will be assigned a weight (5%, 10%, 15%, etc) based on its importance in relation to key objectives, critical issues, etc. Regardless of the number of objectives, the total of their weights must equal 30%.

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Proposal

Performance Objectives and Plan, Continued

Quarterly Status Reports/ Changes in Objectives

At the end of every quarter in the fiscal year, each IO III shall prepare a short status report on progress made toward the accomplishment of his/her objectives. This report must address any unusual or unanticipated factors or events that impact progress toward objective(s) or indicate a need to change the objective.

The IO III shall submit this report to his/her immediate supervisor for review and discussion. If this results in changes to the objective, its projected outcomes, or the targeted completion date; these changes shall be submitted to the appropriate investment manager for final review and approval.

Final Review and Rating

The fourth quarter status report results in the final performance rating on each objective. These ratings translate into the multipliers used in the award computation as shown on the following Performance Rating Schedule.

Rating	Description
Significantly Exceeds Performance Expectations:	<ul style="list-style-type: none">• Results far exceeded requirements or expectations for the objective.• Assignment was completed well ahead of schedule, at significantly less than budgeted costs or with greater cost savings, and with much greater than expected improvements or acceptance by affected parties. Incentive Schedule Value (Multiplier): 1.5
Exceeds Performance Expectations:	<ul style="list-style-type: none">• Results exceeded requirements or expectations for the objective.• Assignment was completed ahead of schedule, at less than budgeted costs or with greater cost savings, and with greater than expected improvements or acceptance by affected parties. Incentive Schedule Value (Multiplier): 1.25
Meets Performance Expectations:	<ul style="list-style-type: none">• Results met requirements or expectations for the objective.• Assignment was completed on time, within budget or generated projected cost savings, and generated desired improvements or acceptance by affected parties. Incentive Schedule Value (Multiplier): 1.0

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Performance Objectives and Plan, Continued

**Final Review
and Rating
(continued)**

Rating	Description
Meets Some, Not All Performance Expectations:	<ul style="list-style-type: none">• Results fell short of requirements for the objective.• Assignment was completed, but behind schedule, exceeded budget or did not fully meet projected cost savings, or generated some but not all desired improvements or acceptance by affected parties. Incentive Schedule Value (Multiplier): .5
Does Not Meet Performance Expectations:	<ul style="list-style-type: none">• Results were not achieved or were achieved at significantly less than expected levels.• Assignment was completed well behind schedule, significantly exceeded budget or did not generate projected cost savings, generated little, if any, desired improvements or was poorly received by affected parties. Incentive Schedule Value (Multiplier): 0

- These ratings are made by the IO III's immediate supervisor, discussed with the IO III, and submitted to the appropriate investment manager for final review, comment, and approval.

**Relationship to
Other
Appraisal
Systems**

The performance rating system discussed in this proposal is in addition to, and does not replace other performance appraisal systems that apply to IO IIIs.

These other systems include:

- Annual performance appraisals,
- Report of probationary performance, and
- Performance certifications for merit salary adjustments.

The performance rating system described in this proposal differs from these other systems in that it focuses exclusively on accomplishment of the specified objectives, rather than overall work performance.

Proposal

Grievance Procedure

Grievance Procedure

The grievance procedure provided under this proposal shall apply to this Performance Award Program as follows:

- Steps One and Two of the formal grievance process (identified in Article 6 of the Bargaining Unit 1 Contract) shall apply,
- The CalPERS Chief Executive Officer shall be the final review and decision level for all grievances.
- Step Three (Department of Personnel Administration review) and Step Four (arbitration) of the formal grievance process (identified in Article 6 of the Bargaining Unit 1 Contract) shall not apply to grievances arising from this program.

Grievances shall be limited to the following grounds:

- Errors of fact, such as miscalculating an award amount
- Dispute of a performance rating (identified in the "Final Review and Rating" Section of this guide).

All other matters shall be under the discretion of CalPERS management and are not subject to the grievance process.
